

2. SECONDARY DATA REVIEW

2.1 Describe the Characteristics of Federal Benefit Check Recipients

Federal benefit check recipients are beneficiaries of Federal assistance programs that provide pensions, compensation for survivors and the disabled, and other benefits. The following categories of benefit programs are discussed below:

- Social Security
- SSI
- VA
- Railroad Retirement
- Federal Pension and Disability.

Each discussion addresses the socioeconomic and demographic characteristics of recipients in each program, such as age, sex, income, education, and race or ethnicity, where available. Differences in recipient characteristics by type of Federal benefit payment also are described. In addition, the demographics of current users of direct deposit and the most likely users are delineated to assist FMS in targeting potential users of direct deposit.

2.1.1 Social Security Benefits

The Social Security program, administered by the SSA, provides retirement, survivor's, and disability benefits to approximately 44 million people under Title II of the Social Security Act. The estimated 44 million people are composed of retired workers, including their spouses, widows, children (younger than 18), and surviving parents; disabled workers aged 50 to 65; and other disabled adults. Fiscal year (FY) 1996 program outlays were approximately \$29.4 billion, and the average monthly Social Security benefit was \$673.¹ Of all payments made, approximately 63 percent were by EFT and 37 percent were by Treasury check.²

Table 5 shows that of the estimated 44 million people receiving monthly Social Security benefits, the majority (61 percent) of the recipients are retired workers and their dependents. Disabled individuals and their dependents represent the next-largest category. Of the total recipients, 72 percent are 65 or older.

¹ Social Security Administration, *Highlights of Social Security Data*, December 1996.

² Social Security Administration, *FY 1997 EFT Versus Check Payments* facsimile, 1997.

Table 5. Social Security Beneficiaries, December 1996³

Beneficiaries	Total Number	Total percent
Retired workers and dependents	26,898,100	61.0
Disabled workers and dependents	11,810,800	27.5
Survivors of deceased workers	5,027,900	11.5
Total	43,736,800	100.0
65 or older	31,667,500	72.0
62-64	380,410	8.7
18-61	11,570,050	14.3
<18	218,840	5.0

Of all adults receiving monthly Social Security benefits at the end of 1994, 42 percent were men and 58 percent were women. More than 80 percent of the men and more than 50 percent of the women received retired workers' benefits, and approximately one-fourth of the women received survivors' benefits.⁴

Social Security benefits are the major source of income (providing at least 50 percent of total income) for 63 percent of the beneficiary units (couples or nonmarried persons). The benefits contribute 90 percent or more of the income for about one-fourth of the beneficiaries and are the only source of income for 14 percent of the recipients.⁵ Recipients of Social Security payments may have income from other sources (e.g., private pensions or asset income).

2.1.2 Supplemental Security Income Benefits

The SSI program, which also is administered by the SSA, provides cash assistance to the aged, the blind, and the disabled under Title XVI of the Social Security Act. Approximately 6 million people receive SSI payments. According to the latest available figures, FY 1993 program outlays were approximately \$24 billion (including state supplements administered by the Federal government), and the average monthly SSI payment was \$354. Approximately 30 percent (1.8 million) of benefit payments were paid by direct deposit, and 70 percent (4.2 million) payments were paid by Treasury check.⁶ Approximately 50 percent of SSI beneficiaries have bank accounts.⁷

The law requires that SSI applicants file first for all other benefits to which they may be entitled because SSI is viewed as the program of last resort. As of September 1993 (the latest available figures), 42 percent of SSI recipients also received Social Security benefits. Table 6 shows the types of SSI beneficiaries by their basis for eligibility and by gender.

³ Social Security Administration, *Highlights of Social Security Data*, December 1996.

⁴ Social Security Administration, *Fast Facts and Figures about Social Security*, 1995, p. 18.

⁵ U.S. Department of Health and Human Services, *Income of the Aged Chartbook*, 1992, 1994, p. 9.

⁶ Social Security Administration, *FY 1997 EFT Versus Check Payments* (facsimile), 1997.

⁷ Financial Management Service, *Invitation for the Expression of Interest to Acquire EBT Services for the Southern Alliance of States*, March 9, 1995, p. 192.

According to the data in Table 6, the disabled are a majority of SSI beneficiaries and receive somewhat higher payments because they are less likely than the aged to receive Social Security benefits. One-third of all SSI recipients are 65 or older, and of the one-third, 29 percent are disabled.⁸

Table 6. SSI Beneficiaries, March 1995

Beneficiaries	Total	Aged	Blind	Disabled
Total Number	5,907,605	1,473,531	85,885	4,348,189
Percent by basis for eligibility	100%	25%	1%	74%
Women	60%	19%	0.6%	40%
Men	40%	6%	0.4%	34%
SSI average monthly income	\$324	\$238	\$358	\$376

Overall, 60 percent of SSI recipients are women. Of those entitled on the basis of disability, 54 percent are women. Blind and disabled children under the age of 18 (22 if they are full-time students) receiving SSI in 1995 totaled 900,000.⁹

In January 1994, 57.6 percent of those receiving SSI on the basis of disability were white, 31.2 percent were black, 7.9 percent were of other races, and race was not reported in 3.4 percent of the cases. Of the total recipients, 55.4 percent were white, 22.0 percent were black, and 19.4 percent were of other races. Among the children, approximately 46 percent are nonwhite.¹⁰

2.1.3 VA Benefits

VA benefits consist of a wide range of benefits and services offered by the VA to eligible veterans, members of their families, and survivors of deceased veterans. As shown in Table 7, VA compensation and pension benefits were provided in 1996 to approximately 3.4 million veterans and dependents, which represents an outlay of \$16.9 billion. In 1996, approximately 1.6 million payments (48 percent) of the total eligible veterans payments were made by direct deposit, and 1.8 million payments (52 percent) were made by Treasury checks.¹¹ Table 7 shows the types of VA benefits.

⁸ Social Security Administration, *Fast Facts and Figures about Social Security*, 1995, p. 26.

⁹ Ibid.

¹⁰ 1996 Green Book: Overview of Entitlement Program, 1996.

¹¹ Financial Management Service, *Invitation for the Expression of Interest to Acquire EBT Services for the Southern Alliance of States*, March 9, 1995, p. 192.

Table 7. VA Beneficiaries, 1996¹²

Type of Benefits	Total Number	Benefits (\$K)
Service-connected compensation		
Disabled veterans	2,200,000	\$13,400,000
Survivors	311,748	
Nonservice-connected pension		
War veterans and survivors	895,596	\$3,500,000
Total	3,407,344	\$16,900,000

Service-connected compensation is paid to veterans who have incurred injuries or illness while in service. VA pensions are means-tested cash benefits paid to war veterans who have become permanently and totally disabled and to survivors of war veterans. The majority of those receiving VA benefits are veterans who were disabled while in service.

Benefits are based on family size, and the pensions provide a floor of income. The basic annual benefit is \$10,240 for a veteran with one dependent and \$7,818 for a veteran living alone.

2.1.4 Railroad Retirement Benefits

The RRB makes payments to approximately 850,000 retirees, survivors, and disability annuitants under the Railroad Retirement Act of 1974. According to available figures, FY 1993 program outlays were approximately \$7.9 billion, and the average monthly benefit was about \$770. Approximately 55 percent of RRB benefits were paid by direct deposit, and the remaining 45 percent were paid by Treasury check.¹³

The Railroad Retirement Act provides children's benefits only if the employee is deceased. Benefits are payable to surviving widows, widowers, and unmarried children. In some cases, benefits also are payable to parents, remarried widows and widowers, grandchildren, and surviving divorced spouses.¹⁴

Table 8 displays information on the number of recipients of Railroad Retirement benefits and their average benefit amounts for November 1993, which is the latest year for which statistics are available.

¹² 1996 Green Book: Overview of Entitlement Program, 1996.

¹³ Financial Management Service, *Invitation for Expressions of Interest to Acquire EBT Services for the Southern Alliance of States*, March 9, 1995, p. 193.

¹⁴ 1996 Green Book: Overview of Entitlement Program, 1996.

Table 8. Monthly Railroad Retirement Benefits, November 1993¹⁵

Type of Beneficiary	Number	Percent of Total	Average Monthly Benefits
Retired workers	337,100	40.1	\$1,033
Disabled workers (under age 65)	33,200	3.9	\$1,284
Spouses of retired and disabled workers	202,600	24.1	\$430
Divorced spouses	3,500	0.4	\$261
Aged widows and widowers	226,100	26.9	\$630
Disabled widows and widowers	6,800	0.8	\$568
Widowed mothers and fathers	1,800	0.2	\$775
Remarried widows and widowers	5,900	0.7	\$421
Divorced widows and widowers	7,800	0.9	\$450
Children	15,700	1.9	\$552
Parents	100	>0.05	\$478
Total Monthly Benefits	840,600	100.0	\$763

2.1.5 Federal Pension and Disability

There are two primary Federal retirement systems, the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), under the Civil Service Retirement and Disability Fund (CSRDF).¹⁶ Both provide Federal retirement pensions, disability income, and survivors' benefits. Most Federal civilian employees are covered by one of these two retirement systems.

The CSRS was established by Public Law 66-125, enacted on May 22, 1920, and has been amended by many subsequent acts of Congress. The CSRS covers most Federal employees hired before 1984. Employees covered by the CSRS qualify for normal retirement benefits or full retirement benefits at age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with 5 years of service. Disability retirement is permitted at any age with 5 years of service and involuntary retirement at any age after 25 years of service or at age 50 with 20 years of service. Deferred retirement benefits are payable at age 62 with 5 years of service.¹⁷

The FERS was established on June 6, 1986, by the Federal Employees' Retirement System Act (FERSA) of 1986, Public Law 99-335. It is a three-part pension program that became effective on January 1, 1987. The FERS generally covers employees who first entered a covered position on or after January 1, 1984. The FERS provides full immediate or deferred retirement benefits at the minimum retirement age (MRA) with 30 years of service, age 60 with 20 years of service, or age 62 with 5 years of service. The MRA is 55 for those born before 1948 and gradually increases to 57 for those born in or after 1970. Deferred retirement benefits also are available at

¹⁵ Ibid., 1996.

¹⁶ 5 *United States Code*, chapters 83 and 84, *Code of Federal Regulations*, Parts 831 and 841-846, *Office of Personnel Management's Operating Manual*, *The CSRS and FERS Handbook for Personnel and Payroll Offices*.

¹⁷ Office of Personnel Management, *Civil Service Retirement and Disability Program*, 1995, p. 3.

or after the MRA with 10 years of service, at reduced benefit levels. Disability retirement may occur at any age with 18 month of service. Full immediate benefits are payable at age 50 with 20 years of service or at any age with 25 years of service in certain cases of involuntary separation, separation during a major reorganization, or reduction in force.¹⁸

FERS survivor's benefits are payable to the family upon the death of an employee. The basic employee death benefit payable to the surviving spouse is a lump sum payment (\$15,000, increased by CSRS cost-of-living adjustments [COLA] beginning on December 1, 1987) plus 50 percent of the employee's final salary. The surviving spouse must elect whether to receive the basic employee death benefit in one payment or 36 monthly installments. If the employee had 10 years of service, the spouse also receives an annuity equaling 50 percent of the accrued basic retirement benefit computed under the general FERS formula.

At the end of FY 1995, more than 2.8 million employees were covered by the Civil Service Retirement Program. Overall, the number of employees covered dropped by 25,000 from the preceding year. The annual change consisted of an 82,000 decrease in the number of CSRS-covered employees offset by an increase of 25,000 in the number of FERS employees. The proportion of employees covered by the two systems continues to shift toward the FERS, which now accounts for about 49 percent of active employees covered by the Civil Service Retirement Program.¹⁹ Table 9 presents a summary of FY 1995 employee and survivor benefits on the retirement roll.

Table 9. Employee and Survivor Benefits on the Retirement Roll, 1995²⁰

Type	Total Number	Percent	Monthly Annuity	Average Years on Roll	Average Age at End of FY 1995
Employee Annuitants on the Retirement Roll					
FERS	52,183	3.1	\$667	3.5	61.7
CSRS	1,651,284	96.9	\$1,697	12.3	70.7
Total	1,703,467	100.0			
Survivor Annuitants on the Retirement Roll					
FERS	3,317	0.5	\$269	3.1	63.9
CSRS	603,927	99.5	\$822	12.3	63.9
Total	607,244	100.0			

Table 10 shows CSRS employee benefits by selected demographics.

¹⁸ Ibid., p. 4.

¹⁹ Ibid., p. 5.

²⁰ Office of Personnel Management, *Annuity Roll*, October 1, 1995.

Table 10. CSRS Employee Benefits, 1995²¹

Retirement Category	Total Number	Percent	Monthly Annuity	Average Age at End of FY 1995	Average Years on Roll
Normal	1,042,583	63.1	\$1,727	72.3	11.5
Disability	250,848	15.2	\$1,193	68.9	18.1
Deferred	69,842	4.2	\$342	77.0	15.2
Involuntary	127,116	7.7	\$1,693	69.3	15.0
Voluntary Early	121,029	7.3	\$1,631	60.2	6.9
Special Provision	31,920	1.9	\$2,839	66.2	11.8
Other	7,946	0.6	\$1,277	66.1	9.8
Total	1,651,284	100.0			

Table 11 shows FERS employee benefits by selected demographics.

Table 11. FERS Employee Benefits, 1995²²

Retirement Category	Total Number	Percent	Monthly Annuity	Average Age at the End of FY 1995	Average Years on Roll
Normal	34,421	66.0	\$617	56.4	3.8
Disability	12,529	24.0	\$583	49.1	3.4
Positioned Optional	74	0.1	\$442	63.2	1.6
Deferred	512	1.0	\$347	62.5	2.4
Involuntary	1,525	2.9	\$1,089	61.6	4.6
Voluntary Early	2,195	4.2	\$897	60.5	1.9
Special Provision	553	1.1	\$3,745	55.9	3.7
Other	374	0.7	\$1,023	60.4	1.4
Total	52,183	100.0			

Table 12 shows CSRS/FERS survivor benefits by selected demographics.

Table 12. CSRS/FERS Survivor Benefits by Selected Demographics, 1995²³

Survivor Category	Total Number	Percent	Monthly Annuity	Average Age at End of FY 1995	Average Years on Roll
Survivors of deceased annuitants	476,139	78.4	\$864	74.1	10.4
Survivors of deceased employees	131,105	21.6	\$656	62.6	19.0
Total	607,244	100.0			

Table 13 shows a summary of CSRS/FERS survivor benefits by relationship.

²¹ Office of Personnel Management, *Civil Service Retirement and Disability Program*, 1995, p.19.

²² Ibid., p. 20.

²³ Ibid., p. 19.

Table 13. CSRS/FERS Survivor Benefits by Relationship, 1995²⁴

Summary by Relationship	Total Number	Percent	Monthly Annuity	Average Age at End of FY 1995	Average Years on Roll
Widows	542,988	89.4	\$863	74.4	12.6
Widowers	25,370	4.2	\$511	72.1	8.6
Former spouses	4,372	0.7	\$1,031	71.4	6.2
Insurable interest	823	0.1	\$722	73.6	14.1
Children	33,691	5.6	\$319	26.5	9.9
Total	607,244	100.0			

2.2 Describe the Banking Relationships and Financial Habits of Federal Benefit Check Recipients and Why Some Do Not Have Bank Accounts

According to an article published in *Federal Reserve Bulletin* (January 1997), data from 1995 *Survey of Consumer Finances* (SCF) show that about 13 percent of families in the U.S. population do not have the following type of transaction account: checking, savings, money market deposit, or money market mutual funds.²⁵ The proportion of that total without a checking account is 15 percent. The percent of families without a checking account has declined slightly over a 6-year period; data from the 1989 survey show 19 percent without a checking account, and data from the 1992 survey show 17 percent.

The article goes on to describe the demographic characteristics of families without checking accounts as lower income (85 percent have incomes of less than \$25,000, 48 percent have incomes of less than \$10,000) and younger than the general population (60 percent have household heads under the age of 45 and 37 percent under the age of 35). A little more than half (54 percent) were nonwhite or Hispanic households.

The demographic profile of the those without bank accounts has been fairly stable over time. In an article published in the winter 1994 issue of *Eastern Economic Journal*, data from the 1977 *Consumer Credit Survey* and the 1989 *Survey of Consumer Finances* are compared. The comparison shows that households without bank accounts have “lower incomes, more children and are more likely to rent their home. They are also more likely to be headed by an individual who is unmarried, unemployed, a racial or ethnic minority, female or has not completed high school.”²⁶

Given the overall demographic characteristics of the recipients of various Federal payments (as shown in subsection 2.1), it appears that recipients of SSI are most likely to match the unbanked demographic profile and most likely not to have a bank account of any type. This assumption is further supported by a study at the state level conducted by the Virginia Citizens Consumer Council, which found that 88 percent of recipients of Aid to Families with Dependent Children

²⁴ Ibid., p. 19.

²⁵ Arthur Kennickell, *et al.*, “Family Finances in the U.S.: Recent Evidence from the Survey of Consumer Finances,” *Federal Reserve Bulletin*, Vol. 83, No. 1 (January 1997), p. 7.

²⁶ John P Caskey and Andrew Peterson, “Who Has A Bank Account and Who Doesn’t,” *Eastern Economic Journal*, Vol. 20, No. 1 (Winter 1994), p. 65-66.

(AFDC), 67 percent of people on SSI, and 29 percent of Social Security recipients do not have bank accounts.²⁷ At the municipal level, a survey conducted by the San Diego County Department of Social Services found that 64 percent of AFDC recipients do not have bank accounts.²⁸

Using these percentages to approximate the percentage of SSI recipients without a bank account shows that approximately 2.9 million of the 5.9 million recipients may not have bank accounts. According to the FMS, approximately 19 million SSI payments (24 percent) are made by direct deposit.²⁹ Consequently, it appears that the majority of SSI recipients with bank accounts are already using direct deposit.

In contrast, although the majority of Social Security's 49 million beneficiaries have bank accounts (only 5.5 million, or 11 percent, do not, according to SSA estimates), only a little more than half (53 percent) of retired-not disabled beneficiaries receive their payments by direct deposit, and only 24 percent of the 6 million recipients of Social Security Disability receive their payments by direct deposit.³⁰

Given that a significant proportion of recipients in each type of Federal program are part of the unbanked population, exploring how these households conduct their financial business is important. In an article for *The American Banker*, Under Secretary of the Treasury for Domestic Finance John D. Hawke, Jr., in referring to the unbanked, said, "These families generally have annual incomes of less than \$25,000 and rely on check cashers, pawnbrokers, money transfer agents or local merchants to cash their payroll checks. They pay their debts in cash or money orders, and any leftover cash is held in currency until it is spent."³¹

An empirical study conducted in June 1996 by John P. Caskey with the support of the Filene Research Institute generally supports this statement. In his 1996 study, Caskey examined how lower-income households (defined as households with an annual income of \$25,000 or less) conduct their financial transactions. Caskey conducted telephone interviews with 900 households in three geographic areas: 300 in Atlanta, Georgia; 300 in Oklahoma City, Oklahoma; and 300 in five smaller cities in eastern Pennsylvania. Although Caskey's study cannot be taken as nationally representative, it reflects the behavior and attitudes of households in urban and rural areas and incorporates minority populations. Consequently, the results can serve as a benchmark for the type of financial services that lower-income households use.

²⁷ Irene Leech, "Statement of Virginia Citizens Consumer Council before Subcommittee on Consumer Credit and Insurance," *Hearing Before the Subcommittee on Consumer Credit and Insurance of the Committee on Banking, Finance and Urban Affairs*, House of Representatives, 103rd Congress, second session (August 11, 1994), p. 5.

²⁸ _____, "Equal Opportunity Direct Deposit," *Corporate EFT Report* (April 17, 1996), p. 2.

²⁹ _____, Summary Sheet for the 12-month period, FY 1995 (which ended September 30, 1995). Data provided to Booz-Allen and Hamilton by Financial Management Service, Department of the Treasury.

³⁰ _____, Phillips Business Information Inc., "Social Security Targets Mandatory Direct Deposit," *Financial Services Report*, Vol. 12, No. 9 (April 1995), p. 1.

³¹ John D. Hawke, Jr., "New Law Means Millions of New Customers," *American Banker*, Vol. 161, No. 214 (November 1996), p. 4.

Caskey found that 78 percent of lower-income households have some type of deposit account (either checking or savings), and 22 percent do not have an account of any type.³² Of interest is that 71 percent of the households without an account indicate that they had a checking or savings account at one time.³³

More than three-quarters (81 percent) of these lower-income households usually cash checks at a bank, a savings and loan, or a credit union; 8 percent usually go to a grocery store; 5 percent rely on check-cashing outlets; and 6 percent go elsewhere or have another means of cashing checks.³⁴ However, among those households that are unbanked, only 49 percent usually go to a financial institution to cash checks, 23 percent go to a grocery store, 17 percent go to a check-cashing outlet, 5 percent go to a convenience store or a liquor store, 3 percent go somewhere else, and 3 percent have some other means.³⁵

To fulfill their financial obligations, more than half (55 percent) of all lower-income households purchase money orders; 27 percent purchase them 1 to 10 times a year, 14 percent purchase them 11 to 30 times a year, and 14 percent purchase them 31 or more times a year.³⁶ These proportions increase for unbanked households, where the majority (84 percent) purchase money orders. Of this 84 percent, 15 percent purchase money orders 1 to 10 times a year, 30 percent purchase them 11 to 30 times a year, and 39 percent purchase them 31 or more times a year.³⁷

In addition to tracking the proportion of households without any type of transaction account, *Survey of Consumer Finances* includes data on the reason that households do not have a checking account. The reasons have remained consistent over time. Approximately one-third (34 percent in 1989, 30 percent in 1992, 27 percent in 1995) of these households responded that they “do not write enough checks to make it worthwhile” and about one-fifth (22 percent in 1989, 21 percent in 1992, 21 percent in 1995) say they “do not have enough money.” The next-most-common response was that they “do not like dealing with banks”; 15 percent gave this reason in 1989 and 1992, and 22 percent in 1995. Other important reasons include “the minimum balance is too high” and “service charges are too high.” Between 8 percent and 11 percent of respondents gave these reasons in each of the 3 years. Very small percentages of respondents (1 percent in each year) said that there is no bank with a convenient location or hours as the reason for not having an account.³⁸

Similarly, results from the study by Caskey show that more than half (53 percent) of the unbanked agree with the statement, “We don’t need an account because we do not have savings.” About equal proportions (23 percent and 22 percent, respectively) of unbanked respondents agreed with the reasons “Bank account fees are too high” and “Banks require too much money just to open an

³² John P. Caskey, *Lower Income Americans, Higher Cost Financial Services* (Madison: Filene Research Institute, 1997), p. 15.

³³ *Ibid.*, p. 20.

³⁴ *Ibid.*, p. 15.

³⁵ *Ibid.*, p. 20.

³⁶ *Ibid.*, p. 15.

³⁷ *Ibid.*, p. 20.

³⁸ Kennickell, *Family Finances*, p. 7.

account.”³⁹ All three of these reasons indicate that these respondents perceive that they cannot afford a bank account. Caskey delves somewhat deeper into this issue by asking the respondents who say that bank fees are too high which fee is the biggest problem. Of the 45 respondents who answered, 18 indicated the monthly account balance fee, 13 mentioned bounced-check fees, 9 said check-writing fees, and 5 mentioned automated teller machines (ATM) fees.⁴⁰

Other reasons given in the Caskey study for not having an account by 22 percent and 18 percent of the respondents, respectively, are “We want to keep our financial records private” and that they are “not comfortable dealing with banks.”⁴¹ Both of these reasons suggest that the unbanked feel a certain level of distrust toward financial institutions. Smaller percentages of respondents (10 percent and 9 percent, respectively) agreed with the statements, “Banks won’t let us open an account” and “No bank has convenient hours or location.”⁴²

From these data, Caskey concludes that physical access to financial institutions is a minor factor in why households do not have an account. Rather, the primary barrier appears to be that unbanked households have limited funds and cannot meet or maintain the minimum account balances required by financial institutions. Second, unbanked households distrust financial institutions and prefer to handle their financial affairs through alternative financial providers, such as grocery stores, check-cashing outlets, and convenience stores. These conclusions also are consistent with the data from *Survey of Consumer Finances*.

Other studies expand on the results from *Survey of Consumer Finances* and the Caskey study. In a 1991 study conducted by the Western Center on Law and Poverty for the City of Los Angeles, researchers found that there are fewer bank branches in lower-income and minority areas, which had fewer than one branch per 10,000 residents, in comparison to 2.9 per 10,000 residents in upper-income and nonminority areas.⁴³ Similarly, results from a study conducted in 1994 by the Public Advocate for the City of New York found that Brooklyn had a ratio of 18,333 residents to every branch in the poorest one-fifth of zip codes in comparison to 4,250 per branch in the wealthiest one-fifth.⁴⁴

This suggests that physical access may be a barrier to receiving a government payment through direct deposit at a traditional financial institution. However, the majority of these studies recognize that alternative financial service providers, such as grocery stores and check-cashing outlets, are widely available in lower-income areas and that they provide basic financial services.

Several studies support Caskey’s finding that lower-income households and the unbanked believe that they cannot afford a deposit account at a traditional financial institution. In the Virginia

³⁹ Caskey, op. cit., p. 20.

⁴⁰ Ibid.

⁴¹ Ibid.

⁴² Ibid.

⁴³ Gary Dymski, *Taking It To The Bank: Poverty, Race and Credit in Los Angeles* (Los Angeles: Western Center on Law and Poverty, 1991), p. 11.

⁴⁴ Mark Green, *The Poor Pay More... For Less: Part 4 - Financial Services* (New York: Public Advocate for the City of New York, 1994), p. 2.

Citizens Consumer Council study, the “primary reasons given for not having a checking account were inability to save enough to open one, unaffordable fees, difficulty managing the checkbook, and fear of bounced check charges.”⁴⁵ Similarly, Caskey reports that in a study conducted by the CBA in 1989, customers leaving check-cashing outlets were asked whether they had a bank account. Of the 33 percent without accounts, 31 percent said they did not have enough money and 10 percent said the banks cheated them with too many service charges.⁴⁶

2.3 Determine the Reasons for Receiving Federal Payments by Check and Identify the Obstacles to Receiving Payment by EFT

Overall, less than half (45 percent) of private-sector employees in the United States were paid by direct deposit in 1996, according to a NACHA study. This was only a 3.2 percent increase from 1994. As mentioned in the previous sections, about half of Federal benefits are paid by direct deposit. Table 14 summarizes the number of recipients receiving their Federal payments by check rather than by direct deposit. Compared with the use of direct deposit by the U.S. population, three of the programs (SSA, RRB, OPM) have more than 50 percent of their recipients enrolled in direct deposit.

Table 14. EFT Versus Check Payments⁴⁷

Program	Total	EFT	Check
SSA	519,089,590	58%	42%
SSI	78,710,735	24%	76%
VA	42,184,639	47%	53%
RRB	10,386,785	56%	44%
OPM	27,994,960	71%	29%

In 1996, the New York Clearing House Association (NYCH) conducted a study of consumers in New York and northern New Jersey to measure awareness and use of direct deposit for payroll checks. The study was conducted with 800 respondents who are adults (at least 18 years of age), employed full- or part-time, and have at least one checking or savings account. Although the demographics of this study population are not comparable to the overall demographics of the recipients of Federal benefit checks, some insights may be gained. The NYCH study found “although familiarity with direct deposit is generally high, lower income people are the least likely to know about it. Only 2 in 10 people earning under \$25,000 annually are extremely familiar with direct deposit, compared to 3 in 10 people earning \$25,000 to \$35,000 (33 percent), 4 in 10 people earning \$35,000 to \$60,000 (40 percent), and nearly half of all people making more than \$60,000 (48 percent).”⁴⁸

⁴⁵ Leech, Statement of Virginia Consumer Council, p. 5.

⁴⁶ Caskey, *Fringe Banking: Check-Cashing Outlets, Pawnshops and the Poor* (New York: Russell Sage Foundation, 1994), p. 76.

⁴⁷ ———, Summary Sheet for the 12-month period, FY 1995 (which ended September 30, 1995). Data provided to Booz-Allen and Hamilton by Financial Management Service, Department of the Treasury (September 1996).

⁴⁸ Wirthlin Worldwide, *New York Clearing House Direct Deposit Usage Study* (New York: NYCH 1996), p. 15.

Several surveys and studies were conducted to determine trends in using direct deposit and to identify the most likely users of EFT. *1995 Survey of Consumer Finances* outlines the preliminary results of the survey conducted to identify consumers' use of electronic financial services and to examine key characteristics of both those who do and those who do not use such services. The services include ATM, direct deposits, preauthorized debits, and "smart cards." The most common electronic financial service used is direct deposit. In addition, more than 50.5 percent of households have an account at a financial institution and use some form of electronic deposit. The survey also indicated that higher-income households use direct deposit, users tend to be older (reflecting the heavy use of direct deposits of Social Security payments), and more-educated people tend to use direct deposit.

Similarly, a Payroll Services Incorporated (PSI) study conducted to identify users and nonusers of direct deposit in the U.S. workforce showed that users generally had higher average incomes and higher education levels and were more likely to hold managerial, professional, technical, sales, or administrative positions rather than blue collar jobs. White collar or salaried job holders tended to use direct deposit, compared with nonusers.⁴⁹ More direct deposit users than nonusers also used other financial services, including ATM and online banking services (e.g., electronic bill payment). Direct deposit users were approximately the same age as nonusers, so use of direct deposit does not depend on the age of the consumer. Profiles of direct deposit users based on the PSI study are summarized in Table 15.

⁴⁹ Wirthlin Worldwide, *Direct Deposit Usage Study*, NYCH, August 1996.

Table 15. Direct Deposit User Profiles, 1992⁵⁰

Type	Workforce	Direct Deposit Nonusers	Direct Deposit Users
Average Household Income	\$48,906	\$44,308	\$57,744
Average age of Household	39.8	39.9	39.5
College Postgraduate	18%	12%	28%
Employee Status			
Full-time	92%	89%	96%
Part-time	7%	9%	3%
Occupation			
Manager, Professional	40%	34%	52%
Technical, Sales, Admin.	18%	16%	22%
Home Ownership			
Own	67%	65%	70%
Rent	26%	28%	22%
Household Size			
2 members	35%	33%	37%
3 members	22%	23%	20%

The household of the average direct deposit user had a 30 percent higher income than that of the average nonuser household. In addition, direct deposit users had more education than nonusers and were slightly more likely to be employed full-time.

In the PSI study, direct deposit usage was associated with geographic location, higher use occurring in metropolitan areas of at least 50,000 people (64 percent). This compared with 51 percent of nonusers living in nonmetropolitan regions. The main reason is that consumer use of direct deposit depends on its availability, and large metropolitan areas offer higher availability of this service than smaller areas do.⁵¹

A NYCH study of direct deposit usage showed that users like saving time by not having to deposit their paychecks personally. In contrast, people who do not choose direct deposit cited a need to have control or valued control over their money.

The study showed that direct deposit users were much more favorably inclined toward direct deposit than those who have never used it. The overall liking for direct deposit is high—64 percent rate direct deposit an 8, 9, or 10 on a 10-point scale. People who have used it like it even more—93 percent of current direct deposit users rated the service 8, 9, or 10 on a 10-point scale, compared with 60 percent of former users and 31 percent of nonusers.⁵² The people

⁵⁰ Ibid., 1992.

⁵¹ Ibid.

⁵² PSI, *Direct Deposit User Profiles*, 1992.

who have used direct deposit considered it convenient, easy, safe, and efficient. However, the study showed that attitudes toward direct deposit did not differ by age, gender, or geography. The reasons some consumers gave for not using direct deposit were that they fear direct deposit would give employers access to their bank accounts and employers would know their account balance, or a computer error would result in their paycheck being lost.

2.4 Measure Interest in a New EFT Delivery System

This subsection assesses the interest among Federal benefit recipients in an EFT system that uses a plastic card to access payments. The reaction to such a program, especially among the unbanked recipients, also is discussed.

Two pilot Federal electronic benefits transfer (EBT) projects were initiated by FMS—the SecureCard project in Baltimore, Maryland, initiated in 1989, and the Pulse EBT project in Houston, Texas, in 1990. EBT provides benefit access through ATMs and retail point-of-sale (POS) terminals. EBT uses the commercial infrastructure of ATMs and POS terminals. Federal EBT projects target the population of unbanked benefits recipients. SecureCard targeted those unbanked recipients who were receiving SSI, and Pulse EBT targeted all banked and unbanked Federal benefit check recipients (the bulk being SSA and SSI recipients).

These two pilot projects were categorized as successes by their respective EBT commercial contractors, although interest in EBT technology during that time appeared to be low. Of the 4,827 individuals approached in Baltimore, Maryland, to participate voluntarily in the SecureCard pilot, only 264 enrolled. That is only a 5.5 percent enrollment of the targeted population.⁵³ In the Houston area, the initial enrollment totals were 379 of 120,000 targeted, representing less than one-half of 1 percent (0.3 percent) of the targeted population.⁵⁴ The Direct Payment Card (DPC) pilot project, implemented in Houston, Texas, in April 1992 and expanded to the Dallas-Fort Worth area the following year, enrolled 11,798 of 465,400, or just 2.5 percent of the targeted population.⁵⁵

Of important note is that most recipients who would choose to use a plastic card to access their Federal benefits using EFT technology may be those who are unbanked. The reason is that many banked recipients already possess debit (or ATM) cards and they do not want to carry another “piece of plastic” to access another account. In addition, the DPC pilot program in Houston, Texas, reported that once fees were charged for using the card, many banked recipients chose to end their participation because they “... [did] not wish to pay for a second non-necessary DPC account.”⁵⁶

These conclusions are supported by statistics from the DPC pilot program in Houston, Texas, where the average percentage of recipients of the various Federal benefit programs (e.g., SSA, SSI, VA, OPM, and RRB), both banked and unbanked, who enrolled voluntarily in the DPC pilot

⁵³ Gayle Dawson, *Assessment of the SecureCard Pilot Project*. 1990.

⁵⁴ Research Management Consultants, Inc., *Pulse EBT Interim Summary Report*, August 16, 1991, p. 2.5-2.7.

⁵⁵ Citibank EBT Services, *Direct Payment Card Expansion Evaluation*, June 30, 1994, p. 33-35.

⁵⁶ *Ibid.*, p. 19.

was 3.2 percent. However, of the unbanked recipients in those programs, the percentage of voluntary enrollment rose significantly to 6.3 percent. This is almost twice the percentage of all recipients who enrolled.⁵⁷ These conclusions are supported further by the expansion of the DPC pilot to the Dallas-Fort Worth area. The percentage of program recipients who enrolled and already had bank accounts was 0.7, and the percentage of recipients without bank accounts was 1.6.⁵⁸ During focus group discussions from the DPC pilot and its subsequent expansion, one banked recipient indicated "... he would continue with the [DPC] Card as he liked the advantage of keeping his accounts separated."⁵⁹

A variety of reasons explain the low percentages of enrollment among recipients (e.g., distrust of new technology, voluntary program). Available data seem to indicate that any large-scale roll out (i.e., beyond a single state) of a voluntary EBT program would, at least initially, generate a modest (below 5 percent) interest in its use by the targeted population but that interest in EFT technology would grow every year that the program continued. FMS learned from the three pilot projects that heavy marketing increased interest in the programs, and that this level of marketing would be necessary to expand any future EFT program.

Since 1995, the DPC pilot has targeted only unbanked Federal benefit check recipients and recommended direct deposit to recipients with bank accounts. The DPC pilot also expanded to include Federal benefit check recipients statewide in Texas. The target unbanked audience in the state of Texas is 180,000. As of March 14, 1997, 39,140 Federal benefit check recipients have enrolled in the DPC pilot.⁶⁰

The largest obstacles to overcome in implementing any new EFT program are the fear of change and fear of unfamiliar new technology. Because the majority of unbanked SSA and SSI recipients are older or have less education, they do not necessarily understand EFT technology and may be afraid to use it. In fact, during the DPC project, only 46 percent of the participating recipients had ever used a credit card, and only 30 percent of them had ever used an ATM card.⁶¹ The pilot programs indicate, however, that once the major barriers are removed (e.g., access to ATMs/POS, fear of use), reactions to similar EFT programs should be quite favorable. In all, the after-action summaries of three pilot programs—SecureCard, Pulse EBT, and DPC—show that the volunteer recipients did not want to return to a check-based benefit disbursement system, even if it meant paying a modest fee for the EFT-based system. Most often, they cited safety and convenience as the reasons for remaining in the program.

Although none of the pilot programs measured the recipients' desire to access their Federal benefits at any particular type of outlet, some inferences and assumptions may be made from the reasons for recipients remaining in the program (e.g., safety and convenience). From a safety perspective, public places, such as United States Post Offices or other government buildings would appeal to a benefit recipient. Post offices especially would appeal not only because of

⁵⁷ Ibid.

⁵⁸ Ibid.

⁵⁹ Citibank EBT Services, *Top Line Report Direct Payment Card Focus Group*, July 18, 1994, p. 3.

⁶⁰ _____, DPC Program Statistics, March 14, 1997.

⁶¹ _____, *Direct Payment Card Expansion Evaluation*, July 18, 1994, p. 10.

safety but also because of convenience. In addition, retail outlets, such as grocery stores, convenience stores, and check-cashing outlets (CCO), are attractive to benefit recipients because of the convenience of accessing their benefits to obtain cash, purchase food, and purchase money orders. Many of these types of outlets are already fitted with POS terminals, and many are installing ATMs, which should contribute significantly to the acceptance of EFT by Federal benefit recipients.

Although most Federal benefit check recipients across all programs have bank accounts, there is evidence that many use CCOs. For example, according to the Public Advocate for the City of New York, CCOs have been the primary distributors of public assistance benefits since 1985, when New York City introduced an EFT system.⁶²

Furthermore, although some lower-income households believe that banks are more expensive than CCOs, a majority (57 percent in the CBA survey) realize that check-cashing services are more expensive.⁶³ Nevertheless, they choose to use a CCO because the hours are more convenient, the CCO is faster and has shorter lines, or the location is more convenient (80 percent gave these reasons in the CBA survey).⁶⁴ Another 17 percent said that they needed their money immediately and could not or did not want to wait for the check to clear through a bank. In addition, results from the CBA survey show that 54 percent of CCO customers agreed that “check cashing services are easier to deal with than banks,” and 24 percent agreed that “banks are too cold and impersonal with people like me.”⁶⁵ All of these factors indicate that CCOs may be a viable alternative to delivering Federal payments by EFT.

2.5 Determine Most Effective Messages for Encouraging Direct Deposit Among Current Federal Benefit Check Recipients

Programs in the private sector for encouraging direct deposit of payroll checks have focused largely on the following aspects of direct deposit: safety, convenience, reliability, and peace of mind. For example, the NYCH has developed promotional materials that explain that direct deposit is safer because paychecks cannot be lost or stolen, is convenient because users do not have to take time to go to the bank to deposit a check, and is reliable and gives peace of mind because there is no need to worry about getting to the bank if the user is sick or out of town. The materials also address concerns about employer access to employee bank accounts and the potential loss of paychecks due to a computer malfunction.⁶⁶

⁶² Green, *The Poor Pay More*, p. 23.

⁶³ Caskey, *Fringe Banking*, p. 76. In fact, numerous studies document the higher cost of using check-cashing services versus purchasing those same services through a bank. Many of the studies conclude that lower-income households are unable to generate a level of savings sufficient to open an account, maintain a minimum balance, or cover unexpected fees, such as charges for bounced checks. However, many states have legislated that banks offer a basic low-cost account to lower-income households. Consequently, awareness and preference issues may take precedence over cost.

⁶⁴ *Ibid.*, p. 75.

⁶⁵ *Ibid.*, p. 76.

⁶⁶ *Faster, Safer, Smarter* brochure from NYCH.

2.6 Determine the Most Effective Vehicles for Communicating the Benefits of Direct Deposit to Federal Benefit Check Recipients

According to a study by the NYCH, people over 35 are more likely to learn about direct deposit from a newspaper or a magazine than people under 35 are. Low-income earners are more likely than high-income earners to learn about direct deposit from friends or family members.⁶⁷

As a result, to reach Federal benefit check recipients, several types of communication channels will need to be utilized. For example, the NYCH has a grassroots outreach component for its *Safer, Faster, Smarter* campaign that mails information to community organizations, labor unions, professional associations, minority associations, fraternal groups, and civic groups. These types of organizations also may have contact and influence with Federal benefit check recipients. In addition, a radio campaign is planned by the NYCH that will communicate the concept of direct deposit.⁶⁸

Many individual banks have developed packages of services to encourage customers to deposit their paychecks directly. For example, Snyder County Trust Company offers no monthly maintenance fee for the first 6 months if the account falls below the \$300.00 balance, waives the fee for a line of credit for the first year, gives a discount of .25 percent on a new installment loan for 12 months, and takes \$150 off the closing costs of a mortgage loan.⁶⁹ A similar package of benefits is offered by Associated Bank Marshfield, including a discount on a safety deposit box, no fees for travelers checks, and free cashier checks or money orders. Some type of similar incentive package might prove successful with Federal benefit check recipients.

Some banks also have had success in meeting with people one-on-one. Old Second National Bank in Aurora, Illinois, meets with employers at breakfast meetings and then meets directly with employees to answer technical questions and build a sense of trust. Similarly, Sunbank in Selingsgrove, Pennsylvania, serves a rural area where many people are uncomfortable with the idea of direct deposit. Sunbank's approach is to sign up employers and then meet with employees to get a first group to sign up. Then, after 6 months, they meet with employees again and let the employees' peers help sell direct deposit.⁷⁰ These word-of-mouth and peer group tactics also may be useful for unbanked Federal benefit check recipients who do not trust banks or the technology.

⁶⁷ _____, *New York Clearing House Direct Deposit Usage Study* (New York: NYCH 1996), p. 15.

⁶⁸ Direct deposit promotion plan from NYCH.

⁶⁹ *Direct Deposit: Employer - Employee Services* brochure from Snyder County Trust, Selingsgrove, Pennsylvania.

⁷⁰ "Two-Step Approach Used to Market ACH Payroll Service," *Fee Income Report*, Vol. 9, No. 9 (Feb. 1995), p. 4.